

DATE: July 7, 2011

MEMO CODE: SP 41 - 2011

SUBJECT: Child Nutrition Reauthorization 2010: Indirect Cost Guidance

TO: Child Nutrition Programs

The Healthy, Hunger-Free Kids Act of 2010 (the Act), Public Law 111-296, requires Food and Nutrition Service (FNS) to provide guidance on program rules pertaining to indirect costs. The purpose of this memorandum is to provide guidance describing the Federal requirements State agencies (SA) and school food authorities (SFA) must comply with in the National School Lunch Program (NSLP) and School Breakfast Program (SBP) with respect to indirect costs.

Section 307(a) of the Act establishes the requirement to issue guidance providing assistance to ensure the nonprofit school food service account funds are limited to those expenses that are reasonable and necessary to provide quality meals for the NSLP and SBP. In general, the full cost of the NSLP and SBP include both direct and indirect costs. Direct costs are incurred specifically for the NSLP and SBP, and can be readily identified to a particular school food service objective. Allocation of indirect cost is necessary because it identifies the portion of the costs benefitting the school food service.

The guidance intends to provide the following information to SAs and SFAs on program rules pertaining to indirect costs:

- Definitions for both direct and indirect costs, including the proper classification of costs and discussion on the treatment of certain typical costs in the NSLP and SBP. Direct costs are discussed because direct and indirect costs are complementary;
- An overview of the Federal cost principles and explanation that all costs (direct or indirect) paid with funds from the nonprofit school food service account must be allowable. The guidance provides criteria that will aid an SFA in determining allowable costs and includes relevant examples;
- Information on how a school district's general fund recovers indirect costs from the nonprofit school food service account. This includes appropriate application of the indirect cost rate and the requirements for the SFA to determine the rate;
- Considerations for the SFA when assessing indirect costs charged to the nonprofit school food service account. This information includes how an SFA should address errors and the billing of previous years' indirect costs; and
- An overview of how the indirect cost rate is developed as relevant background information for SFAs. The information includes a discussion on appropriate uses of restricted or unrestricted indirect cost rates and adjustment of the rates.

Attachments